Chapter 7 Complementary and flanking policies

Chapters 4–6 have examined competition, intellectual property and digitalization as linked to investment and the surrounding policy nexus. The report has also reviewed interlinkages with other relevant sectors: the trade, fiscal and private sectors. The policy nexus deserves special attention since it can complement positive interlinkages and prompt virtuous cycles with the other sectors to enhance and bolster development in Africa. This chapter takes a closer look at some complementary and flanking policy measures.

Identifying complementary measures reinforcing the policy nexus

What are complementary and flanking policy measures? They are policies and regulations that advance, enhance and support desired policy outcomes in other policy areas.

Beyond the sectors focused on here—investment, competition, intellectual property and digitalization—the theoretical and empirical literature also considers other interlinkages and their policy relevance for other sectors. That was duly highlighted in the report’s conceptual framework (see chapter 2). It recognized that sectors such as trade, fiscal and private sector development can enhance, stifle or worsen the policy outcomes of interventions in the investment, competition, intellectual property and digitalization sectors (see figure 2.1). Policies for the complementary and flanking sectors can complement policies in the study’s central sectors, maximize positive outcomes and minimize negative ones.

For example, suppose a government established an investment promotion policy measure, such as a national electronic investment guide (such as the iGuides mentioned in chapter 1) to showcase investment opportunities in the country. An accompanying trade policy measure might be supporting businesses in showcasing their investment opportunities in international trade fairs. A resulting trade policy outcome of such a measure would be more investment flowing into the companies in the trade sector promoted through both the electronic investment platform and the trade fairs.

Another example uses a fiscal policy measure to support manufacturing sector investment. Tax rebates for purchases by manufacturing firms might be formulated as an incentive—perhaps exemption from tariffs on importing industrial machinery above a certain value. That measure might appear to be neutral, not distinguishing between foreign or domestic investment. But in the medium to long run, it could result in greater investment by foreign firms seeking to settle themselves in the local market to capture the tax rebate through a locally established company purchasing machinery. That could harm the chances of domestic firms that are smaller in size and capacity and unable to take advantage of the incentive
because of the cost of the machinery. Although investment through foreign firms might increase, domestic investment in the manufacturing sector could stagnate, harming domestic private sector development. A small adjustment of the policy measure—such as lowering or eliminating the threshold for the rebate—might, in contrast, allow domestic small and medium-sized enterprises in the private sector to purchase machinery and so add to their productivity and competitiveness, at their specific level of production.

A policy measure that could have a negative outcome is one limiting the ownership and the nationality of staff of foreign firms in the domestic market. Though well intended, such a policy might reduce the transmission of know-how and technology to the domestic market. Initially, the policy might have sought to promote joint ventures of local and foreign capital and to build stronger backward and forward linkages in the economy. But firms wanting to protect intangible assets, such as those in information technology or pharmaceuticals, might be discouraged from investing in the country, especially if intellectual property protection and enforcement were weak (see chapter 5). And firms that did invest might have intra-company practices that discouraged or stifled opportunities for the transfer of technology and know-how. That often happens in companies where the management and high-level expertise are entirely foreign, and no internal development programmes train local personnel beyond technical functions.

With differing policy outcomes possible and the need to ensure that policy responses are attuned to development priorities—such as increased investment and competition and improved innovation and technology, including in the digital space—governments may need to assess their policies. They can do so by cataloguing existing policy measures and assessing their impact on various sectors of the economy to determine:

- Which sectoral policy measures have a positive impact on investment, competition, intellectual property and digitalization (such positive interlinkages should be sustained and enhanced).

- Which are neutral or “blind” to the existing sectors (these policies might be adjusted to bring on positive effects).

- Which adversely affect the existing sectors (these should be corrected or reversed to remove negative impacts or usher in positive impacts).

Table 7.1 provides examples of policy measures to illustrate the possible relationships between the flanking or complementary policy measures and how they affect the sectors this report focuses on. The table also suggests possible policy actions to enhance, correct or eradicate policy outcomes.
### Table 7.1 Complementary and flanking policy measures

<table>
<thead>
<tr>
<th>POLICY SECTOR</th>
<th>POLICY MEASURE</th>
<th>POLICY OUTCOME</th>
<th>POLICY ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade sector</td>
<td>Support the participation of firms through trade promotion activities, such as trade fairs</td>
<td><strong>Positive:</strong> Firms in the trade sector seeking to attract investment can meet potential investors and present their investment cases</td>
<td>None required, unless an adjustment to the policy might enhance the positive outcome without leading to negative impacts in other policy sectors</td>
</tr>
<tr>
<td>Fiscal sector</td>
<td>Tax rebates or holidays for importing machinery for businesses, for purchases above a certain value threshold</td>
<td><strong>Neutral:</strong> The measure does not affect all companies in the same way. Large companies (such as multinational enterprises) may be incentivized to locate their production in the host country (through foreign direct investment) because of the tax rebate. Small and medium-sized enterprises (SMEs) may be unable to take advantage of the policy because of the value threshold</td>
<td>Eliminate the value threshold on the machinery so that all firms, including SMEs, can import low-value machinery to advance their business</td>
</tr>
<tr>
<td>Private sector</td>
<td>Capital ownership requirements with caps on foreign participation (typically below 50 per cent of ownership)</td>
<td><strong>Negative:</strong> Although intended to promote joint ventures and the blending of different sources of capital as well as technology transfer and know-how, the measure might deter foreign investment and the transfer of intangibles</td>
<td>Requirements on ownership should be removed, and direct policies promoting and facilitating the transfer of know-how and technology should be designed</td>
</tr>
</tbody>
</table>

Source: ECA, based on Tinbergen (1956) policy principles.

Such a catalogue could structure moving from a policy disconnect to a more coherent and better connected policy space. Policy measures for various sectors could then be articulated to complement and flank policies on investment, competition, intellectual property and digitalization (see box 7.1, for instance, on the disconnect between land reforms and investment policy in Zimbabwe). To achieve this, governments may also need treat some of neutral or negative policy measures as needing tweaking or reversal.
Box 7.1 Policy disconnect resulting from Zimbabwe's land reform and resettlement programme

After Zimbabwe's independence in 1980, its land policy had two objectives: to reduce the imbalances of colonial land allocation and to maintain or increase agricultural production in line with overall economic policy.1 Between 1980 and 1996, land was acquired by the government on a willing buyer–willing seller basis for redistribution, but the effort was largely unsuccessful due to underfunding and insufficient land being made available for sale. The Land Reform Act of 1992 set out conditions and procedures for land reforms, driven by the need for food security, through labour-intensive smallholder agriculture, respect for property rights and political stability.

In 2000, a more aggressive approach, the Fast-Track Land Reform Programme, was adopted. It resulted in 14 million hectares of commercial farming land being compulsorily acquired for resettlement. Of that, 977,000 hectares (197 farms) were covered under Bilateral Investment Promotion and Protection Agreements (BIPPAs), including those with Belgium, Denmark, Germany, Italy, Malaysia, the Netherlands and Switzerland.2

In principle, land reforms were necessary. The way they were implemented, however, violated the principles of rule of law and investment protection, disrupted agriculture and triggered a general economic meltdown. Agriculture is the backbone of Zimbabwe's economy and has strong backward and forward linkages with other sectors, particularly manufacturing. The effects of its dramatic decline are felt economywide and contribute to persistent low production and productivity, poor export performance, low attractiveness to foreign investors, high unemployment, increased poverty, food insecurity and inequality.

The disconnect between land reforms and investment policy

The implementation of land reforms has affected compliance with BIPPA provisions in multiple ways that might deter foreign investment:

- Violations of fair and equal treatment clauses enshrined in various legal instruments, including the constitution, various BIPPAs, the Zimbabwe Investment Development Agency Act, the National Investment Policy, and other relevant policies and regulations. These have exposed the country to lengthy and costly investor–state dispute settlement proceedings.

- The high cost of compliance with BIPPA obligations. Zimbabwe has yet to honour some high awards from arbitration by the International Centre for the Settlement of Investment Disputes (ICSID). It faces the dilemma of whether to divert funds from public coffers to compensate private investors, especially since they have a right under the BIPPAs to repatriate the money to their countries of origin in hard currency (which is scarce). The failure to comply with ICSID and tribunal awards makes the country even less attractive to foreign investors.
• Rule of law concerns, due to the lack of prompt and adequate compensation for expropriation.

• A conflict between human rights and investment protection. In exercising the country’s right to regulate, affirmative actions by the government may have infringed investors’ rights. For instance, in the attempts to redress past colonial injustices, challenges have been encountered in balancing among the protection of foreign investment, the rights of indigenous people to self-determination and the country’s sovereignty over natural resources.

• Inadequate access to justice. The expropriation of land affected both local and foreign investors, and neither received fair compensation for their losses. The unavailability of relief from local remedies meant that foreign investors enjoyed more rights—granted under BIPPAs through access to arbitration at the ICSID—than local investors.

Possible remedies to strengthen the complementarity of land and investment policies

Recent initiatives to strengthen the investment regulatory and policy framework include the enactment of the Zimbabwe Investment and Development Agency Act [Chapter 14:37] (ZIDA Act) on 7 February 2020 and the launch of a new National Investment Policy in August 2019. The ZIDA Act consolidates investment laws into a single law to foster coherence and predictability in investment governance and revamp one-stop shop services to ease investment approvals. Provisions of the ZIDA Act reinforce and complement those of the BIPPAs. Further provisions relevant to investment facilitation, promotion and protection are contained in the Zimbabwe Arbitration Act [Chapter 7:15], the national constitution, the Land Commission Act [Chapter 20:29], the Land Commission (Gazetted Land) (Disposal in Lieu of Compensation) Regulations (SI 62 of 2020), the Land Acquisition Act, and the National Agriculture Policy Framework (2018–2030).

A comprehensive and gender-sensitive land policy aligned with the African Union Framework Agenda 2063 and the African Union’s guidelines on land policy in Africa is currently being formulated. It is intended to enhance access to land, land use planning and management, and productive and sustainable use of land. A holistic approach to land administration integrating land dispute resolution, environmental sustainability and management of wildlife, forestry and water is envisaged.

1. Mupawose and Chengu, n.d.

Policy tweaking will of course not be easy. It will require adequate consultation across the identified sectors, data for evidence-based analysis of impact and outcomes and a systematic approach to ensure consistency in identifying policy interventions, policy outcomes and policy adjustments. A three-step approach
could result, in which a policy review initially establishes whether policies affect the relevant policy sector, then assesses what type of impact the policy has and then discovers whether there is a need for policy corrective action (figure 7.1).

Figure 7.1 Policy review process

The next three sections discuss policy interfaces, with a view to elucidate requirements for better policy design and formulation. The following discussions are not exhaustive but point to some features to be considered in the context of policy reviews and dialogues when engaging policy stakeholders in the fiscal, trade and private sectors.

The trade policy nexus

In this report’s conceptual framework (see chapter 2), the trade–investment policy nexus is perhaps the strongest, given the theoretical and empirical evidence of their linkages. The most salient feature of this nexus is the difference between complementarities and substitutions, which are greatly determined by policy interventions or measures. A trade policy targeted at enhancing a mutually reinforcing relationship between trade and investment in one sector could have exactly the opposite effect in another sector. So, trade policy must be synchronized and targeted at sectors rather than the whole economy.601

In the competition–trade policy relationship, competition provides safeguards that enable trade policy. Trade policy without competition policy can be empty because no rules or principles would control harmful market conduct by firms or distortionary regulations. Competition policy can assist in securing gains from trade liberalization and market opening. But simply reducing barriers to trade and removing barriers to entry for domestic and foreign investment can create an environment in which firms, especially multinational corporations, can acquire significant market power and influence pricing and volumes of supply in a way that obstructs the objectives of market liberalization.

A growing consensus backs competition policy as a vital component for the proper functioning of international markets.602 Competition and trade policy are interlinked components, and no other pair of policies is so connected.
Competition policy decisions reliably address market failures that can result from trade policy, such as cartels, anti-competitive mergers, unilateral conduct and abuse of dominant position. By their nature, competition policy decisions require separating economic and non-economic goals in trade policy, which at times is used to pursue public interest. So, trade policies could promote anti-dumping laws to prevent damage to local markets from low-priced imports, while competition policies prohibit predatory pricing that damages competitors. These relationships constitute key consideration in developing economic reform policies, particularly in the context of regional integration efforts such as the AfCFTA.

So, meaningful trade policy must be supported by a complementary competition policy that addresses the following, among other things:

- Since the Competition Protocol will, of necessity, try to harmonize AfCFTA states’ competition rules or policies, trade policies need to be implemented so they can coexist with the harmonized competition policies. Should competition policy apply the same standards for home markets and export markets? That question raises a problem when producer and consumer interests differ from one AfCFTA state to another. Harmonizing trade policy is thus an intricate process that could distort market outcomes, for example by strengthening export cartels, if poorly executed. Global economic welfare is higher when countries harmonize to the less distortionary policy and when policy favours harmonization towards a stricter competition policy. In short, the harmonization of competition rules requires strict enforcement across all AfCFTA states, not strict enforcement in some and lax enforcement in others.

- Legal instruments must deliberately support the link between the trade policy objective and the supportive competition policy. The legal instruments must preserve complementarity between trade policy and competition policy, eliminating any potential conflict.

- Competition policy needs proper structuring to address and avert economic crises that could result from trade policies, such as the creation of market dominance, which could obstruct market liberalization objectives.

- Market integration trade policies can hinder the competitiveness and growth of specific domestic industries at different stages of growth that are overexposed to international competition. Competition policy must balance the needs of different market players at different levels of maturity to competitively coexist in a single market.

- Competition policy is critical in levelling the playing field, though some trade policies could easily neglect that.

- Competition policy is industry-neutral—it is applied in the same way across all industries. But trade policy tends to be industry-related and gets more diverse beyond the border. So, a robust competition policy or regime is increasingly needed as markets get larger, to redress market imperfections.
• Competition policy should especially inform trade policy in a market where several countries’ economies are integrated so that competition rules will be the same at home and beyond the countries’ borders. This will benefit community members more, since trade policy is not used to shield domestic markets at the expense of the greater economic community.

Intellectual property policy and trade policy also have an intrinsic relationship, as is evidenced through the market. Trade policy must be particularly observant of intellectual property rights (IPRs) and enforcement across borders if trade in knowledge-intensive goods and services is to take place. Without such protection, trade in sectors such as information technology, pharmaceuticals and the creative industries, as well as intra-industry trade, is likely to be severely stifled and underperform. The multilateral trading system is fully cognizant of this dual role of IPRs in facilitating trade while protecting the fruits of innovation, upholding and enforcing the international conventions that govern the vast realm of intellectual property (see chapter 5).

A free trade area (FTA) can support consistency in enacting, applying and enforcing IPRs through its trade policy. Efforts to ensure that application and enforcement will require cooperation and coordination across the FTA’s countries. In the African context, increased public investment in IPR law enforcement agencies may be required, focusing on civil and administrative procedures and remedies, border measures and criminal procedures to promote regional (AfCFTA) and international cooperation. The AfCFTA could thus become a good destination for foreign direct investment in greenfield projects and research and development (R&D) spending from abroad while bolstering trade in goods and services with greater knowledge content. And strengthening public institutions can reduce predation, corruption and excessive bureaucracy in local governments, support the efficient use of existing IPR enforcement measures and so attract additional greenfield foreign direct investment by multinational enterprises (MNEs) and R&D spending from abroad.

Trade policy and the digital realm are also closely linked, particularly in the context of e-commerce (see chapter 6). The prospective protocol on e-commerce, which will govern electronic trade in the African continental space under the AfCFTA agreement, presents a unique opportunity to design trade policy tailored to Africa’s digitalization needs and objectives. That protocol must set trade policy for electronic transactions across borders. It must also capture the financial transactions that take place on electronic platforms, accompanying the cross-border movement of a good (or service) from seller to buyer, and capture the digital components embedded in the trade. And it must establish a relationship with investment in the digital economy and address principles of competition and intellectual property that will govern the digital space.
These linkages provide a rationale to frontload the negotiation of an E-commerce Protocol so its policy connects with the other Phase II issues—investment, competition and intellectual property. To do that will require a political decision on behalf of the AfCFTA states to establish a technical working group, like those for the other disciplines, so an E-commerce Protocol can be developed in tandem with the other Phase II issues.

**The fiscal policy nexus**

Fiscal policy is critical to all sectors of an economy. It dictates what government budgetary resources and allocations can be secured for and what taxes and other impositions can be derived from each economic activity.

The effectiveness and efficiency of fiscal policy can be enhanced considerably through digitalization. Digitalization can enhance fiscal policy through two channels that also benefit investment, competition and intellectual property in the form of technology and innovation. First, expanding the tax base to cover fast-growing digital services can improve domestic revenue mobilization. And second, better use of digital technologies in tax administration can raise revenues and reduce costs, thereby improving tax administration efficiency (box 7.2). Digital technology can thus help African countries increase fiscal revenue by an estimated 3–4 per cent, the same amount as they could gain by bringing into taxation sectors that are considered hard to tax, such as agriculture, the digital economy and the informal sector.
**Box 7.2 The digitalization-fiscal policy nexus: Examples from Kenya and Rwanda**

**Kenya’s digital services tax**

In 2019, Kenya introduced a digital services tax (DST) on transactions that take place on a digital marketplace, defined as “a platform that enables direct interaction between buyers and sellers of goods and services through electronic means.” The Finance Bill, 2020, setting out the new tax regime was announced by the Kenyan parliament in May 2020. The tax came into effect at the beginning of 2021, with the first returns and payment due on 20 February 2021.

The DST is a 1.5 per cent levy on the gross transaction value of a range of digital services, including, to name a few: downloadable digital content (e-books, movies, music and so on), electronic ticketing and booking, online training, search engine services and purchases made on digital marketplaces. The gross transaction value for a service provider is the payment received for the digital service, and for a marketplace it is the commission received for the use of the platform. The DST applies to both residents and non-residents on the portions of their revenues generated in Kenya.

It is too early to estimate the impact of the DST on Kenya’s overall tax revenues. It appears to be an effort to enlarge fiscal space by taxing companies that generate significant revenues in Kenya without being physically present. Without global coordination to address the challenges posed by the digital economy on the international tax system (see chapter 6), governments around the world have increasingly resorted to similar unilateral efforts. France, for example, enacted a digital services tax in 2019, and the European Commission has proposed rules to tax digital business activities.

**The digitalization of tax administration in Rwanda**

In 2000, the Rwandan government launched Vision 2020, a national economic roadmap. The document envisions digital tools as key to domestic revenue mobilization. Since then, the Rwanda Revenue Authority (RRA) has introduced various measures to digitalize tax collection. These include deploying software to facilitate tax return processing (2004), launching online filing and payment (2011), allowing filing and payment through a mobile application (2013), developing the e-government platform Irembo (2014, see chapter 6) and introducing a live chat feature on the RRA website to assist taxpayers (2019).

In part due to this digital transformation, Rwanda has achieved remarkable improvements in tax administration efficiency. On the revenue side, the tax-to-GDP ratio rose 4.5 percentage points between 2004 and 2016 (to 16.6 percent). The number of registered taxpayers increased from 144,000 in 2011 (when the RRA made it possible to file and pay taxes online) to 242,000 in 2018. And collection costs fell from 3.5 per cent to 2.7 per cent of total revenue between 2010 and 2018 through RRA’s intensive use of digital technology.

Using digital technologies to mobilize and manage revenue (and to manage, downstream, public investment expenditure) can strengthen government capacity to implement and monitor effective tax and spending policies. Technology advancements, such as big data analytics, financial technology (fintech) and blockchain technology, can increase revenue and improve tax administration by lowering compliance and tax collection costs. For example, through big data analytics, revenue authorities can cost-effectively identify new sources of revenue and deepen the participation of current and potential taxpayers. Tax avoidance can be reduced if taxpayers use technologies as simple as mobile banking to file their taxes. Similarly, digital technology can promote greater fiscal discipline in public expenditure by better monitoring, enhancing spending transparency in real time and ensuring that such spending aligns with budgets requirements. All this raises accountability, efficiency and effectiveness in managing public assets.

Digital applications are being leveraged to promote innovation, entrepreneurship and the empowerment of women and youth. Mobile and digital solutions are helping to fill credit gaps and create productive jobs for youth. Despite that progress, increased public and private investment in information and communications technology (ICT) and related capabilities is needed to overcome challenges faced by trade and the private sector. Adapting and harmonizing technology law is also needed, including for intellectual property and data privacy, to keep up with rapid technological and social changes and so maximize the benefits of digitalization.

Fiscal policy must therefore support complementary policies that advance digitalization. Fiscal resources must be dedicated to investing in digital infrastructure and overcoming the digital divide in Africa through various policy measures (see chapter 6).

Fiscal policy and investment also have notable complementarities. Fiscal policy—if geared to investment rather than consumption-based spending—can achieve multiple development objectives. It can, for example, propel investment towards critical economic sectors, such as the knowledge economy, and thereby enhance the interlinkages with intellectual property policy. Fiscal policy can support blending in non-fiscal investment sources, if adequately designed. It can also reduce procyclical responses and regulate speculation by investors in boom and bust cycles that exacerbate a country’s vulnerability, instead contributing to the resilience and predictability of long-term investment.

And, as discussed earlier, fiscal policy can use tax holidays and rebates to attract investment to targeted sectors, such as the knowledge sector. Fiscal policy for the information technology sector is particularly important. Tax laws should be adapted, together with IPR and data laws, to address emerging challenges, such as the pricing of sales within a company (“transfer pricing”) in cyberspace. The efficient allocation of taxable profits to MNEs, small and medium-sized enterprises (SMEs) and transient workers in the borderless digital market becomes critical.
And the collection of fiscal revenue must be steered to boost the share of general expenditure on research and development (GERD) devoted to developing digital skills. Such skills relate to blockchain, big data, robotics, the internet of things (IoT), artificial intelligence (AI) and applications to such vital sectors/areas as trade, transport, health care, finance, government, energy, education and drug discovery and development.

**Private sector development policy nexus**

The third dimension under review in this chapter is private sector development. Advancing the private sector to support industrialization, which drives structural transformation, is a critical and fundamental policy objective in Africa. But industrialization requires large capital expenditure on productive assets. Domestic capital is insufficient, making inflows of foreign capital, among other sources, virtually indispensable.

Most intra-industry trade takes the form of cross-border intra-company exchanges, so foreign investment is often necessary to participate. But regional integration through the movement of African capital could create regional value chains that could move countries faster into production involving more processing and blending with global flows of goods and services. Regional production could offer a better cost structure for processing raw materials than global trade, allowing African countries to trade at the higher parts of value chains.

But moving up the production ladder is not easy. Transportation costs have fallen and flatlined, and digital space has boomed, with the world’s largest companies often hailing from the tech sector. Moving up the value chain requires embedding local intangible content (chapter 5) —the activity where the most value addition and most opportunities for harnessing greater revenue lie. To harness the myriad opportunities presented by the booming digital economy, African countries must support their tech entrepreneurs in developing scalable products (see chapter 6). And important spillover effects flowing from foreign companies can help domestic suppliers and competitors, including SMEs, increase their competitiveness (see chapters 2 and 5).

To promote investment in sectors that might support industrialization, and ultimately structural transformation, African countries should develop and implement industrialization plans identifying and tapping their static comparative advantages (often based on cost-competitiveness). This strategy would increase the employment and purchasing power of domestic consumers, allowing further investment and greater specialization of domestic companies. It would also develop SMEs—the backbone of the private sector in Africa, as in many parts of the world. The industrialization plans should facilitate a movement towards production embedding more added value, benefiting from an educated, burgeoning young population and context-specific R&D carried out in cooperation with the private sector.
The AfCFTA will usher in an opportunity for continental free circulation of goods and services with embedded R&D content. The protocol on intellectual property could bolster efforts to mobilize African states to use the AfCFTA to implement the African Union Commission’s Science, Technology and Innovation Strategy (STISA) 2024. That undertaking could support raising GERD to at least 1 per cent of GDP, as agreed by the African Union Executive Council in 2006, so countries can make progress in innovation and technology and gradually escape the middle-income trap, a situation where an economy cannot attain a higher income level because of its inability to compete in high-value-add production. Increased local capabilities to absorb and learn from FDI and international R&D; enhanced creativity, innovation and competitiveness in global value-chains and increased contribution to value added and inclusive growth are parts of this promise. They are not too distant if a coordinated approach can be achieved through the effective implementation of STISA.

Industrialization is typically urban, so urban planning should encompass the development of production centres. A successful industrial drive also requires agricultural modernization to create an economic environment conducive to forward and backward linkages. Rural development, typically via SMEs, is thus essential to industrialization.

Policies to support private sector development emphasizing investment include improvements in the domestic business environment. Such measures can range from improving bureaucratic efficiency and cutting red tape to reducing corruption and improving infrastructure (see below). An appropriate mix of investment facilitation and protection (chapter 3), trade barrier reduction, and capital markets development can support industrial policy and so enhance private sector development.

The AfCFTA, beyond integrating trade, envisages developing it on a foundation of industrialization and an infrastructure. To pursue that, hard and soft national and regional infrastructure development will be key to investment, trade and industrialization. Although involving the private sector in infrastructure could be beneficial and could unlock many previously inaccessible opportunities, African countries must make up-front investments in building the capacities needed to deal with complex public-private partnership contracts.

Ownership can matter. Countries that have industrialized, such as Japan, Germany, South Korea, the United Kingdom, the United States and, to some extent, China have done so on the back of big national conglomerates. Some argue that other regions have failed to converge with their more advanced peers partly due to the global distribution of production, with intra-company relations decided
outside their regions, creating a structural ceiling to the productive development achievable by relying on foreign capital. That supports fostering complementarity with domestic businesses, so local SMEs might become the next global players, if adequately supported (chapter 5). For example, private sector development policies could try to lower the costs of obtaining IP protection to encourage local youth and smaller entrepreneurs, who generally lack the required resources. This policy could incentivize them to bring exciting innovative ideas into the marketplace and develop new ones. So, the need for domestic firm development should be carefully balanced and complemented with the need for FDI (see figure 7.1).

African industrialization must avoid being merely temporary, with assets losing their value due to climate change (becoming “stranded”). Greening the brown must be a foundation for Africa, particularly the private sector, as well as for several interrelated Sustainable Development Goals (SDGs): achieving industrialization (SDG 9), accessing affordable and clean energy, (SDG 7) and sustainable production and consumption (SDG 12). Smart regulation and the use of incentives to support the private sector in this task would ensure responsible stewardship, underpinning long-term competitiveness and so aligning socioeconomic development driven by industrialization with the environmental dimension of sustainable development.
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